

AMCON DISTRIBUTING CO

Form 10-Q

July 20, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-15589

(Exact name of registrant as specified in its charter)

Delaware

47-0702918

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

7405 Irvington Road, Omaha NE

68122

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code (402) 331-3727

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

The Registrant had 577,266 shares of its \$.01 par value common stock outstanding as of July 12, 2010.

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AMCON Distributing Company and Subsidiaries
Condensed Consolidated Balance Sheets
June 30, 2010 and September 30, 2009

	June 2010 (Unaudited)	September 2009
ASSETS		
Current assets:		
Cash	\$ 365,362	\$ 309,914
Accounts receivable, less allowance for doubtful accounts of \$1.7 million and \$0.9 million at June 2010 and September 2009	29,967,877	28,393,198
Inventories, net	41,308,413	34,486,027
Deferred income taxes	1,967,233	1,701,568
Prepaid and other current assets	4,554,137	1,728,576
Total current assets	78,163,022	66,619,283
Property and equipment, net	11,780,603	11,256,627
Goodwill	6,149,168	5,848,808
Other intangible assets	4,858,269	3,373,269
Other assets	1,062,245	1,026,395
	\$ 102,013,307	\$ 88,124,382
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 18,647,475	\$ 15,222,689
Accrued expenses	6,605,525	6,768,924
Accrued wages, salaries and bonuses	3,045,321	3,257,832
Income taxes payable	2,527,497	3,984,258
Current maturities of credit facility		177,867
Current maturities of long-term debt	933,256	1,470,445
Total current liabilities	31,759,074	30,882,015
Credit facility, less current maturities	28,480,212	22,655,861
Deferred income taxes	1,141,803	1,256,713
Long-term debt, less current maturities	5,435,769	5,066,185
Other long-term liabilities	562,575	
Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares authorized and issued, liquidation preference \$25.00 per share	2,500,000	2,500,000
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized and issued, liquidation preference \$25.00 per share	2,000,000	2,000,000

Shareholders' equity:

Preferred stock, \$0.01 par, 1,000,000 shares authorized, 180,000 shares outstanding and issued in Series A and B referred to above		
Common stock, \$.01 par value, 3,000,000 shares authorized, 577,266 shares outstanding at June 2010 and 573,232 shares outstanding at September 2009	5,773	5,732
Additional paid-in capital	8,250,974	7,617,494
Retained earnings	21,877,127	16,140,382
Total shareholders' equity	30,133,874	23,763,608
	\$ 102,013,307	\$ 88,124,382

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

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AMCON Distributing Company and Subsidiaries
Condensed Consolidated Unaudited Statements of Operations
for the three and nine months ended June 30, 2010 and 2009

	For the three months ended June		For the nine months ended June	
	2010	2009	2010	2009
Sales (including excise taxes of \$87.9 million and \$77.4 million, and \$246.3 million and \$171.0 million, respectively)	\$ 267,062,440	\$ 242,817,927	\$ 741,502,607	\$ 655,637,536
Cost of sales	247,932,676	225,753,469	688,204,656	605,481,395
Gross profit	19,129,764	17,064,458	53,297,951	50,156,141
Selling, general and administrative expenses	14,070,483	12,800,612	41,215,024	38,625,335
Depreciation and amortization	440,466	273,650	1,243,307	884,972
	14,510,949	13,074,262	42,458,331	39,510,307
Operating income	4,618,815	3,990,196	10,839,620	10,645,834
Other expense (income):				
Interest expense	370,873	368,048	1,144,543	1,265,834
Other (income), net	(32,758)	(43,600)	(69,184)	(84,143)
	338,115	324,448	1,075,359	1,181,691
Income from continuing operations before income tax	4,280,700	3,665,748	9,764,261	9,464,143
Income tax expense	1,532,000	1,411,000	3,495,000	3,614,000
Income from continuing operations	2,748,700	2,254,748	6,269,261	5,850,143
Discontinued operations (Note 2)				
Gain on asset disposal and debt settlement, net of income tax expense of \$2.7 million		4,666,264		4,666,264
Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0.01 million and (\$0.1) million, respectively		13,105		(186,370)
Income on discontinued operations		4,679,369		4,479,894
Net income	2,748,700	6,934,117	6,269,261	10,330,037
Preferred stock dividend requirements	(74,052)	(74,052)	(222,158)	(493,786)

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Net income available to common shareholders	\$ 2,674,648	\$ 6,860,065	\$ 6,047,103	\$ 9,836,251
Basic earnings per share available to common shareholders:				
Continuing operations	\$ 4.72	\$ 3.97	\$ 10.73	\$ 9.78
Discontinued operations		8.52		8.17
Net basic earnings per share available to common shareholders	\$ 4.72	\$ 12.49	\$ 10.73	\$ 17.95
Diluted earnings per share available to common shareholders:				
Continuing operations	\$ 3.67	\$ 3.11	\$ 8.39	\$ 7.37
Discontinued operations		6.46		5.65
Net diluted earnings per share available to common shareholders	\$ 3.67	\$ 9.57	\$ 8.39	\$ 13.02
Weighted average shares outstanding:				
Basic	566,224	549,397	563,505	547,859
Diluted	749,350	724,833	747,035	793,610

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

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AMCON Distributing Company and Subsidiaries
Condensed Consolidated Unaudited Statements of Cash Flows
for the nine months ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,269,261	\$ 10,330,037
Deduct: Income from discontinued operations, net of tax		4,479,894
Income from continuing operations	6,269,261	5,850,143
Adjustments to reconcile net income from continuing operations to net cash flows from operating activities:		
Depreciation	1,043,186	884,972
Amortization	200,121	
(Gain) loss on sale of property and equipment	(31,843)	26,468
Stock based compensation	376,422	398,700
Net excess tax (benefit) deficiency on equity-based awards	(130,126)	16,592
Deferred income taxes	(380,575)	893,851
Provision for losses on doubtful accounts	750,489	489,038
Provision for losses on inventory obsolescence	82,778	331,319
Other	77,094	
Changes in assets and liabilities:		
Accounts receivable	(2,325,168)	(1,797,340)
Inventories	(4,923,666)	1,714,017
Prepaid and other current assets	(2,830,201)	312,759
Other assets	(35,850)	59,277
Accounts payable	3,388,920	(365,711)
Accrued expenses and accrued wages, salaries and bonuses	(375,910)	2,625,568
Income tax payable	(1,326,635)	4,713,677
Net cash flows from operating activities continuing operations	(171,703)	16,153,330
Net cash flows from operating activities discontinued operations		(2,673,712)
Net cash flows from operating activities	(171,703)	13,479,618
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,423,912)	(784,221)
Proceeds from sales of property and equipment	62,406	102,406
Acquisition	(3,099,836)	
Net cash flows from investing activities	(4,461,342)	(681,815)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) on bank credit agreements	5,646,484	(8,955,236)
Principal payments on long-term debt	(682,574)	(604,975)
Proceeds from exercise of stock options	126,973	
Net excess tax (benefit) deficiency on equity-based awards	130,126	(16,592)

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Redemption of Series C convertible preferred stock		(2,000,000)
Dividends paid on convertible preferred stock	(222,158)	(272,158)
Dividends on common stock	(310,358)	(171,119)
Net cash flows from financing activities continuing operations	4,688,493	(12,020,080)
Net cash flows from financing activities discontinued operations		(825,000)
Net cash flows from financing activities	4,688,493	(12,845,080)
Net change in cash	55,448	(47,277)
Cash, beginning of period	309,914	457,681
Cash, end of period	\$ 365,362	\$ 410,404

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

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	2010	2009
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 1,141,934	\$ 1,347,690
Cash paid during the period for income taxes	5,202,208	612,473
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified as accounts payable	35,866	108,546
Constructive dividends on Series A, B, and C Convertible Preferred Stock		221,628
Acquisition of equipment through capital leases	14,969	12,333
Business acquisition (see Note 2):		
Inventory	1,981,498	
Property and equipment	122,978	
Customer relationships intangible asset	1,620,000	
Goodwill	300,360	
Note payable	500,000	
Contingent consideration	425,000	
TSI disposition discontinued operations		
Property and equipment, net		(2,032,047)
Accrued expenses		(925,452)
Long-term debt		(6,945,548)
Deferred gain on CPH Settlement		(1,542,312)
The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.		

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AMCON Distributing Company and Subsidiaries

Notes to Condensed Consolidated Unaudited Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

AMCON Distributing Company and Subsidiaries (AMCON or the Company) operate two business segments:

Our wholesale distribution segment (Wholesale Segment) distributes consumer products in the Central and Rocky Mountain regions of the United States.

Our retail health food segment (Retail Segment) operates fourteen health food retail stores located throughout the Midwest and Florida.

WHOLESALE SEGMENT

Our Wholesale Segment serves approximately 4,200 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. In October 2009, Convenience Store News ranked our Wholesale Segment as the eighth (8th) largest convenience store distributor in the United States based on annual sales.

Our Wholesale Segment distributes approximately 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products.

RETAIL SEGMENT

The Company's retail health food stores, which are operated as Chamberlin's Market & Café and Akin's Natural Foods Market, carry over 30,000 different national and regionally branded and private label products. These products include high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas.

FINANCIAL STATEMENTS

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements (financial statements) contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2009, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to we , us , our , the Company , and AMCON shall mean AMCON Distributing Company and its subsidiaries. Additionally, the three month fiscal periods ended June 30, 2010 and June 30, 2009 have been referred to throughout this quarterly report as Q3 2010 and Q3 2009, respectively. The fiscal balance sheet dates as of June 30, 2010, June 30, 2009, and September 30, 2009 have been referred to as June 2010, June 2009, and September 2009, respectively.

Table of Contents**Recently Issued Accounting Pronouncements**

The Company is currently evaluating the impact of implementing the following new accounting standards:

FASB ASC 860 (*Accounting for Transfers of Financial Assets*) requires additional disclosures regarding the transfer and derecognition of financial assets and eliminates the concept of qualifying special-purpose entities. This pronouncement is effective for fiscal years beginning after November 15, 2009 (fiscal 2011 for the Company).

FASB ASC 810 (*Amendments to FASB Interpretation: Consolidation of Variable Interest Entities*) eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, this pronouncement requires additional disclosures about an enterprise's involvement in variable interest entities and is effective for fiscal periods beginning after November 15, 2009 (fiscal 2011 for the Company).

2. ACQUISITION AND DISPOSITIONS**ACQUISITION**

On October 30, 2009, the Company acquired the convenience store distribution assets of Discount Distributors from its parent Harps Food Stores, Inc. (Harps). Discount Distributors was a wholesale distributor to convenience stores in Arkansas, Oklahoma, and Missouri with annual sales of approximately \$59.8 million. The Company paid \$3.1 million cash, issued a \$0.5 million note payable in quarterly installments over two years, and could pay an additional \$1.0 million in contingent consideration for certain fixed assets, inventory, and customer lists of Discount Distributors. The contingent consideration is based on achieving predetermined two-year revenue targets. This transaction was funded through the Company's existing credit facility. No significant liabilities were assumed in connection with the transaction and the costs incurred to effect the acquisition were not significant and were expensed as incurred. The acquisition expands the Company's strategic footprint in the southern portion of the United States and enhances our ability to service customers in that region.

The following table summarizes the consideration paid for the acquired assets and their related acquisition date fair values. The fair value of the assets acquired have been measured in accordance with ASC 805 Business Combinations. In valuing identifiable intangible assets, the Company has estimated the fair value using the discounted cash flows methodology. The purchase price allocation reflects various preliminary estimates and analyses and is subject to change during the measurement period (generally one year from the acquisition date). The acquired assets will be reported as a component of our wholesale distribution segment.

Total Consideration

	Amount (in millions)
Cash	\$ 3.1
Note payable	0.5
Fair value of contingent consideration	0.4
Fair value of consideration transferred	\$ 4.0

Recognized amounts of identifiable assets acquired

	Amount (in millions)	Weighted Average Amortization Period
Inventory	\$ 2.0	
Property and equipment	0.1	5 years
Identifiable intangible assets:		

Customer relationships	1.6	8 years
Total identifiable net assets	3.7	
Goodwill	0.3	
Total identifiable assets and goodwill	\$ 4.0	

The Company has estimated that the undiscounted payments required under the contingent consideration arrangement will approximate \$0.7 million (\$0.4 million fair value). The \$0.3 million of goodwill arising from the acquisition primarily represents synergies and economies of scale generated through reductions in selling, general, and administrative expenses. This goodwill has been assigned to the Company's Wholesale Segment and is expected to be deductible for tax purposes. No measurement adjustments related to this transaction were recorded during Q3 2010.

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The following table sets forth the unaudited actual revenue and earnings included in the Company's statement of operations related to the acquisition and the pro forma revenue and earnings of the combined entity had the acquisition occurred as of the beginning of the Company's prior fiscal year. These pro forma amounts do not purport to be indicative of the actual results that would have been obtained had the acquisition occurred at that time.

(In millions)	Three months ended		Nine months ended	
	June		June	
	2010	2009	2010	2009
Revenue Actual Results	\$ 16.1	\$	\$ 38.3	\$
Revenue Supplemental pro forma results	\$ 16.1	\$ 14.9	\$ 43.3	\$ 39.4
Net Income Actual Results	\$ 0.1	\$	\$ 0.3	\$
Net Income Supplemental pro forma results	\$ 0.1	\$ (0.1)	\$ 0.3	\$ 0.2

DISPOSITION DISCONTINUED OPERATIONS

In Q3 2009 the Company completed a transaction in which it disposed of assets held by Trinity Springs, Inc. (TSI), a wholly owned subsidiary of the Company, and completed a related debt settlement. The income from discontinued operations as summarized below primarily relates to the gain on this transaction.

	Three months ended		Nine months ended	
	June		June	
	2010	2009	2010	2009
Operating income (loss)	\$	\$ 20,105	\$	(65,458)
Interest expense				(230,012)
Gain on asset disposal and debt settlement		7,381,264		7,381,264
Income tax expense		2,722,000		2,606,000
Income from discontinued operations		4,679,369		4,479,894

3. CONVERTIBLE PREFERRED STOCK:

The Company had two series of convertible preferred stock outstanding at June 2010 as identified in the following table:

	Series A	Series B
Date of issuance:	June 17, 2004	October 8, 2004
Optionally redeemable beginning	June 18, 2006	October 9, 2006
Par value (gross proceeds):	\$ 2,500,000	\$ 2,000,000
Number of shares:	100,000	80,000
Liquidation preference per share:	\$ 25.00	\$ 25.00
Conversion price per share:	\$ 30.31	\$ 24.65
Number of common shares in which to be converted:	82,481	81,136
Dividend rate:	6.785%	6.37%

The Series A Convertible Preferred Stock (Series A) and Series B Convertible Preferred Stock (Series B), (collectively, the Preferred Stock), are convertible at any time by the holders into a number of shares of AMCON common stock equal to the number of preferred shares being converted multiplied by a fraction, which is equal to \$25.00 divided by the conversion price. The conversion prices for the Preferred Stock are subject to customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Common Stock. Cumulative dividends for the Preferred Stock are payable in arrears, when, and if declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year.

In the event of a liquidation of the Company, the holders of the Preferred Stock are entitled to receive the liquidation preference plus any accrued and unpaid dividends prior to the distribution of any amount to the holders of the Common Stock.

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The shares of Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed in the above table, at redemption prices equal to 112% of the liquidation preference. The redemption prices decrease 1% annually thereafter until the redemption price equals the liquidation preference, after which date it remains the liquidation preference. The Preferred Stock is redeemable at the liquidation value and at the option of the holder. The Series A Preferred Stock is owned by Mr. Chris Atayan, AMCON's Chief Executive Officer and Chairman of the Board. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Atayan, pursuant to the voting rights in the Certificate of Designation creating the Series B, as its representative on our Board of Directors.

4. INVENTORIES

Inventories consisted of finished goods at June 2010 and September 2009 and are stated at the lower of cost, determined on a first in first out, or FIFO basis, or market. The Wholesale Segment and Retail Segment inventories consist of products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods include total reserves of approximately \$1.0 million at June 2010 and \$0.9 million at September 2009. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based on an evaluation of slow moving and discontinued products.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill by reporting segment of the Company consisted of the following:

	June 2010	September 2009
Wholesale Segment	\$ 4,236,291	\$ 3,935,931
Retail Segment	1,912,877	1,912,877
	\$ 6,149,168	\$ 5,848,808

Other intangible assets of the Company consisted of the following:

	June 2010	September 2009
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Customer relationships (less accumulated amortization of \$135,000)	1,485,000	
	\$ 4,858,269	\$ 3,373,269

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. The Company performs annual impairment testing of goodwill and other intangible assets during the fourth fiscal quarter of each year.

At June 2010, intangible assets considered to have finite lives represented acquired customer relationships. These customer relationships are being amortized over eight years. Amortization expense related to these assets totaled \$50,625 and \$135,000, respectively, for the three and nine month periods ended June 2010. The Company had no amortization expense related to intangible assets during the comparable prior year periods. Amortization expense for customer relationships for the periods subsequent to June 2010 is as follows:

	Fiscal 2010/1/	Fiscal 2011	Fiscal 2012	Fiscal 2013	Thereafter
Customer relationships	50,625	202,500	202,500	202,500	826,875

/1/ Represents
amortization for

the remaining
three months of
Fiscal 2010.

6. DIVIDENDS:

On April 30, 2010, the Company declared a cash dividend of \$0.18 per common share payable on June 1, 2010 to shareholders of record as of May 11, 2010. Cash dividends paid to common shareholders for the three and nine months ended June 2010 totaled \$103,599 and \$310,358, respectively.

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Basic earnings per share available to common shareholders is calculated by dividing income from continuing operations less preferred stock dividend requirements and income from discontinued operations by the weighted average common shares outstanding for each period. Diluted earnings per share available to common shareholders is calculated by dividing income from continuing operations less preferred stock dividend requirements (when anti-dilutive) and income from discontinued operations by the sum of the weighted average common shares outstanding and the weighted average dilutive options, using the treasury stock method.

There were no anti-dilutive stock options and potential common stock options at June 2010. Stock options and potential common stock outstanding at June 2009 that were anti-dilutive were not included in the computations of diluted earnings per share. Such potential common shares totaled 917 and 8,878 for the three and nine months ended June 2009. The average exercise price of anti-dilutive options and potential common stock was \$45.68 and \$32.32 for the three and nine months ended June 2009.

	For the three months ended June			
	2010		2009	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	566,224	566,224	549,397	549,397
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/		183,126		175,436
Weighted average number of shares outstanding	566,224	749,350	549,397	724,833
Income from continuing operations	\$ 2,748,700	\$ 2,748,700	\$ 2,254,748	\$ 2,254,748
Deduct: convertible preferred stock dividends /2/	(74,052)		(74,052)	
	2,674,648	2,748,700	2,180,696	2,254,748
Income from discontinued operations	\$	\$	\$ 4,679,369	\$ 4,679,369
Net income available to common shareholders	\$ 2,674,648	\$ 2,748,700	\$ 6,860,065	\$ 6,934,117
Income per share from continuing operations	\$ 4.72	\$ 3.67	\$ 3.97	\$ 3.11
Income per share from discontinued operations	\$	\$	\$ 8.52	\$ 6.46
Net earnings per share available to common shareholders	\$ 4.72	\$ 3.67	\$ 12.49	\$ 9.57

/1/ Diluted earnings per share calculation includes all stock options, convertible preferred stock, and restricted

stock deemed to be dilutive.

/2/ Diluted earnings per share calculation excludes dividends for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

	For the nine months ended June			
	2010		2009	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	563,505	563,505	547,859	547,859
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/		183,530		245,751
Weighted average number of shares outstanding	563,505	747,035	547,859	793,610
Income from continuing operations	\$ 6,269,261	\$ 6,269,261	\$ 5,850,143	\$ 5,850,143
Deduct: convertible preferred stock dividends /2/	(222,158)		(493,786)	
	6,047,103	6,269,261	5,356,357	5,850,143
Income from discontinued operations	\$	\$	\$ 4,479,894	\$ 4,479,894
Net income available to common shareholders	\$ 6,047,103	\$ 6,269,261	\$ 9,836,251	\$ 10,330,037
Income per share from continuing operations	\$ 10.73	\$ 8.39	\$ 9.78	\$ 7.37
Income per share from discontinued operations	\$	\$	\$ 8.17	\$ 5.65
Net earnings per share available to common shareholders	\$ 10.73	\$ 8.39	\$ 17.95	\$ 13.02

/1/ Diluted earnings per share calculation includes all

stock options,
convertible
preferred stock,
and restricted
stock deemed to
be dilutive.

/2/ Diluted earnings
per share
calculation
excludes
dividends for
convertible
preferred stock
deemed to be
dilutive, as
those amounts
are assumed to
have been
converted to
common stock
of the Company.

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8. DEBT

The Company has a credit agreement, (the Facility) with Bank of America which includes the following significant terms:

A January 1, 2012 maturity date and a \$55.0 million revolving credit limit.

The Facility bears interest at either the bank's prime rate or at LIBOR plus 250 basis points, at the election of the Company.

The Facility provides for an additional \$5.0 million of credit advances available for certain inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.

Lending limits subject to accounts receivable and inventory limitations.

An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable. Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.

The Facility includes a prepayment penalty equal to one-half of one percent (1/2%) of the original maximum loan limit (\$60.4 million) if the Company prepays the entire Facility or terminates the credit agreement on or before January 1, 2011.

The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at June 2010.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day based on our collateral and loan limits as defined in the Facility agreement. The Company's calculated credit limit of the Facility at June 30 was \$54.5 million of which \$28.5 million was outstanding leaving \$26.0 million available.

At June 2010, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.06% at June 2010. At June 2010, the Company had \$6.4 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at June 2010.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse is financed through term loans with Marshall and Ilsley Bank (M&I), which is also a participant lender on the Company's revolving line of credit. The M&I loans contain cross default provisions which cause all loans with M&I to be considered in default if any one of the loans where M&I is a lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2010. In addition, the M&I loans contain co-terminus provisions which require all loans with M&I to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Other

AMCON has issued a letter of credit for \$0.5 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Table of Contents**9. EQUITY-BASED INCENTIVE AWARDS****Omnibus Plan**

The Company has an Omnibus Incentive Plan (the Omnibus Plan) which provides for equity incentives to employees. The Omnibus Plan was designed with the intent of encouraging employees to acquire a vested interest in the growth and performance of the Company. The Omnibus Plan permits the issuance of up to 150,000 shares of the Company's common stock in the form of stock options, restricted stock awards, restricted stock units, performance share awards as well as awards such as stock appreciation rights, performance units, performance shares, bonus shares, and dividend share awards payable in the form of common stock or cash.

Stock Options

In April 2010, the Compensation Committee of the Board of Directors awarded various employees of the Company incentive stock options to purchase 6,000 shares of the Company's common stock. These awards vest in equal installments over a five year service period and have an exercise price of \$51.50 per share.

The Company has estimated that the fair value of the incentive stock option awards was approximately \$0.1 million using the Black-Scholes option pricing model. This amount will be amortized to compensation expense on a straight-line basis over the five year service period. The following assumptions were used in connection with the Black-Scholes option pricing calculation:

	Stock Option Pricing Assumptions
Risk-free interest rate	3.04%
Dividend yield	1.30%
Expected volatility	49.3%
Expected life in years	7

The stock options issued by the Company expire ten years from the grant date and include graded vesting schedules up to five years in length. Stock options issued and outstanding to management employees at June 2010 are summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable
Fiscal 2003	\$ 28.80	251	251
Fiscal 2007	\$ 18.00	25,000	25,000
Fiscal 2010	\$ 51.50	6,000	
		31,251	25,251

Stock options issued and outstanding to the Company's outside directors at June 2010 are summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable
Fiscal 2002	\$ 26.94	834	834

The following summarizes all stock options issued and outstanding at June 2010:

Remaining	Exercisable
------------------	--------------------

Exercise	Number	Weighted-Average	Weighted-Average	Number	Weighted-Average
	Outstanding	Contractual	Contractual		Exercisable
	Price	Life	Life	Price	Price
2002 Options	\$ 26.94	834	2.12 years	\$ 26.94	834
2003 Options	\$ 28.80	251	2.30 years	\$ 28.80	251
2007 Options	\$ 18.00	25,000	6.45 years	\$ 18.00	25,000
2010 Options	\$ 51.50	6,000	9.83 years	\$ 51.50	
		32,085		\$ 24.58	26,085
					\$ 18.39

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The following is a summary of the activity of the stock options for the nine months ended June 2010:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 2009	30,117	\$ 20.16
Granted	6,000	\$ 51.50
Exercised	(4,032)	\$ 31.56
Forfeited/Expired		
Outstanding at June 2010	32,085	\$ 24.58

Net income before income taxes included compensation expense related to stock options of approximately \$0.01 million and \$0.1 million for the three and nine months ended June 2010, respectively, and \$0.03 million and \$0.1 million for the three and nine months ended June 2009, respectively. At June 2010, total unamortized compensation expense related to stock options was approximately \$0.1 million. This unamortized compensation expense is expected to be amortized over approximately the next 58 months.

Restricted Stock

Pursuant to the Omnibus Plan, the Compensation Committee of the Board of Directors has authorized and approved the restricted stock awards as summarized below:

	Restricted Stock /1/	Restricted Stock /2/
Date of award:	December 6, 2007	January 29, 2008
Number of shares:	24,000	7,500
Service period:	34 months	36 months
Estimated fair value of award at grant date /3/:	\$ 963,000	\$ 229,000
Intrinsic value of awards outstanding at June 2010:	\$ 454,000	\$ 142,000

/1/ The remaining 8,000 shares will vest on October 16, 2010.

/2/ The remaining 2,500 shares will vest January 29, 2011.

/3/ Amount is net of estimated forfeitures.

There is no direct cost to the recipients of the restricted stock awards, except for any applicable taxes. The recipients of restricted stock are entitled to full voting rights and the customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company's common stock. All cash dividends and/or distributions payable to restricted stock recipients will be held in escrow until all the conditions of vesting have been met.

The Company recognizes compensation expense related to restricted stock awards on a straight-line basis over the requisite service period. Accordingly, net income before income taxes included compensation expense of \$0.1 million for the three months ended June 2010 and June 2009, and \$0.3 million for the nine months ended June 2010 and June 2009. Total unamortized compensation expense related to restricted stock awards at June 2010 was approximately \$0.1 million. This unamortized compensation expense is expected to be amortized over approximately the next four months (the expected weighted-average period).

The following summarizes restricted stock activity under the Omnibus Plan for the nine months ended June 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested restricted stock at September 2009	21,000	\$ 40.16
Granted		
Vested	(10,500)	\$ 40.16
Expired		
Nonvested restricted stock at June 2010	10,500	\$ 40.16

Table of Contents**10. BUSINESS SEGMENTS**

AMCON has two reportable business segments: the wholesale distribution of consumer products and the retail sale of health and natural food products. The retail health food stores operations are aggregated to comprise the Retail Segment because such operations have similar economic characteristics, as well as similar characteristics with respect to the nature of products sold, the type and class of customers for the health food products and the methods used to sell the products. Included in the Other column is intercompany eliminations and charges incurred by our holding company. The segments are evaluated on revenues, gross margins, operating income (loss), and income before taxes.

	Wholesale Segment	Retail Segment	Other /1/	Consolidated
THREE MONTHS ENDED JUNE 2010:				
External revenue:				
Cigarettes	\$ 192,819,138	\$	\$	\$ 192,819,138
Confectionery	18,276,797			18,276,797
Health food		9,220,081		9,220,081
Tobacco, food service & other	46,746,424			46,746,424
Total external revenue	257,842,359	9,220,081		267,062,440
Depreciation	270,627	92,763	936	364,326
Amortization	76,140			76,140
Operating income (loss)	4,820,946	911,760	(1,113,891)	4,618,815
Interest expense	119,356	111,322	140,195	370,873
Income (loss) from continuing operations before taxes	4,708,303	811,190	(1,238,793)	4,280,700
Total assets	88,755,030	12,238,486	1,019,791	102,013,307
Capital expenditures	136,591	184,392		320,983
THREE MONTHS ENDED JUNE 2009:				
External revenue:				
Cigarettes	\$ 175,859,941	\$	\$	\$ 175,859,941
Confectionery	17,248,948			17,248,948
Health food		9,059,300		9,059,300
Tobacco, food service & other	40,649,738			40,649,738
Total external revenue	233,758,627	9,059,300		242,817,927
Depreciation	223,275	49,228	1,147	273,650
Amortization				
Operating income (loss)	4,661,114	888,437	(1,559,355)	3,990,196
Interest expense	132,192	133,692	102,164	368,048
Income (loss) from continuing operations before taxes	4,536,746	765,176	(1,636,174)	3,665,748
Total assets	77,693,924	11,517,275	989,112	90,200,311
Capital expenditures	223,251	63,569		286,820

/1/ Includes
intercompany
eliminations,
charges incurred
by the holding

company, and
the assets of
discontinued
operations.

Table of Contents**10. BUSINESS SEGMENTS (continued)**

	Wholesale Segment	Retail Segment	Other /1/	Consolidated
NINE MONTHS ENDED JUNE 2010:				
External revenue:				
Cigarettes	\$ 537,317,934	\$	\$	\$ 537,317,934
Confectionery	48,472,133			48,472,133
Health food		27,639,474		27,639,474
Tobacco, food service & other	128,073,066			128,073,066
Total external revenue	713,863,133	27,639,474		741,502,607
Depreciation	808,338	231,618	3,230	1,043,186
Amortization	200,121			200,121
Operating income (loss)	12,354,842	2,922,249	(4,437,471)	10,839,620
Interest expense	366,547	351,612	426,384	1,144,543
Income (loss) from continuing operations before taxes	12,010,720	2,601,688	(4,848,147)	9,764,261
Total assets	88,755,030	12,238,486	1,019,791	102,013,307
Capital expenditures	740,175	683,737		1,423,912
NINE MONTHS ENDED JUNE 2009:				
External revenue:				
Cigarettes	\$ 464,141,853	\$	\$	\$ 464,141,853
Confectionery	47,377,945			47,377,945
Health food		27,604,903		27,604,903
Tobacco, food service & other	116,512,835			116,512,835
Total external revenue	628,032,633	27,604,903		655,637,536
Depreciation	716,427	165,105	3,440	884,972
Amortization				
Operating income (loss)	12,130,097	2,552,606	(4,036,869)	10,645,834
Interest expense	391,236	443,550	431,048	1,265,834
Income (loss) from continuing operations before taxes	11,766,639	2,140,075	(4,442,571)	9,464,143
Total assets	77,693,924	11,517,275	989,112	90,200,311
Capital expenditures	526,281	257,940		784,221

/1/ Includes intercompany eliminations, charges incurred by the holding company, and the assets of discontinued operations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis and other sections, contains forward-looking statements that are subject to risks and uncertainties and which reflect management's current beliefs and estimates of future economic circumstances, industry conditions, company performance and financial results. Forward-looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words "future," "position," "anticipate(s)," "expect," "believe(s)," "see," "plan," "further improve," "outlook," "should" or similar expressions. In these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

- increases in state and federal excise taxes on cigarette and tobacco products
- regulation of cigarette and tobacco products by the U.S. Food and Drug Administration ("FDA"), in addition to existing state and federal regulations by other agencies,
- increases in manufacturer prices,
- increases in inventory carrying costs and customer credit risk,

- changes in promotional and incentive programs offered by manufacturers,

- decreased availability of capital resources,

- demand for the Company's products, particularly cigarette and tobacco products,

- new business ventures or acquisitions,

- domestic regulatory and legislative risks,

- competition,

- poor weather conditions,

- increases in fuel prices,

- consolidation trends within the convenience store industry,

- other risks over which the Company has little or no control, and

- any other factors not identified herein.

Changes in these factors could result in significantly different results. Consequently, future results may differ from management's expectations. Moreover, past financial performance should not be considered a reliable indicator of future performance. Any forward-looking statement contained herein is made as of the date of this document. Except as required by law, the Company undertakes no obligation to publicly update or correct any of these forward-looking statements in the future to reflect changed assumptions, the occurrence of material events or changes in future operating results, financial conditions or business over time.

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CRITICAL ACCOUNTING ESTIMATES

Certain accounting estimates used in the preparation of the Company's financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our Form 10-K for the fiscal year ended September 30, 2009, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the fiscal quarter ended June 2010.

THIRD FISCAL QUARTER 2010 (Q3 2010)

The following discussion and analysis includes the Company's results of operations from continuing operations for the three months and nine months ended June 2010 and 2009. Continuing operations are comprised of our Wholesale Segment and our Retail Segment. A separate discussion of discontinued operations has been presented following our analysis of continuing operations.

Wholesale Segment

Our Wholesale Segment serves approximately 4,200 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. In October 2009, Convenience Store News ranked our Wholesale Segment as the eighth (8th) largest convenience store distributor in the United States based on annual sales.

Our Wholesale Segment distributes approximately 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products.

Retail Segment

The Company's Retail Segment, which is operated as Chamberlin's Market & Café and Akin's Natural Foods Market, carry over 30,000 different national and regionally branded and private label products. These products include high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas.

Business Update Wholesale Segment

The wholesale distribution industry is mature and intensely competitive. The revenue streams in this segment have historically been very dependent on the sale of cigarettes. Legislative actions such as excise tax increases, smoking bans, and diminishing social acceptance, however, have decreased the demand for cigarettes. Most recently, the manufacturing, distribution, marketing, and sale of cigarette and tobacco products was placed under the authority of the FDA. To date, the regulatory actions undertaken by the FDA have been primarily targeted at cigarette manufacturers and retailers. However, future regulatory actions by the FDA could further depress consumer demand for this product.

In the area of merchandising, industry research suggests that the convenience store industry is moving towards fresh and healthier foods offerings. These products tend to earn higher margins than the cigarette and tobacco categories we distribute and can enhance customer loyalty at the retail level. Accordingly, we are focused on expanding our products, sales, and training services offered to our customers in this area.

The long-term implications of the above considerations on the industry are significant. The combined impact of declining cigarette revenues as well as the overall availability of credit and access to capital will hinder smaller distributors and likely result in substantial industry consolidation. As one of the nation's largest wholesale distributors, we believe the Company is well-positioned to capitalize on these trends and broaden our strategic footprint.

Table of Contents**Business Update Retail Segment**

The health food retailing industry is highly competitive. Our competitors include local, regional, and national supermarkets as well as specialty natural foods stores. While natural food is one of the fastest growing categories in food retailing today, macro-economic conditions have negatively impacted sales growth industry-wide. We also face increased competition from other natural food chains looking to grow their market share.

Despite a challenging operating environment, we believe our health food stores continue to offer a unique value proposition. One of our core operating strategies is to carry product lines not readily found in other stores, coupled with highly trained sales associates who are passionate about the products we carry. These core operating principles have allowed us to develop a loyal customer following.

As the economy and consumer confidence improves, we believe consumer preferences towards more health conscious lifestyles combined with aging demographic trends will continue to make this a growth category for our Company and an attractive portion of our consolidated operations.

Business Update General

A combination of economic and regulatory factors and the potential of higher fuel prices could adversely affect our sales, gross margins, and operating profits into the foreseeable future. Additionally, the Company is evaluating the impact that the new healthcare legislation might have on our business. Currently, however, the ultimate impact of this new legislation is uncertain.

While the above considerations present challenges industry-wide, we believe that our conservative strategy of cost containment, aggressively targeting new business, and maintaining maximum liquidity, will position us well to capture market share, execute strategic acquisitions, open new retail stores, and ultimately create shareholder value.

RESULTS OF OPERATIONS

	For the three months ended June			
			Incr	
	2010	2009	(Decr)	% Change
CONSOLIDATED:				
Sales /1/	\$ 267,062,440	\$ 242,817,927	\$ 24,244,513	10.0
Cost of sales	247,932,676	225,753,469	22,179,207	9.8
Gross profit	19,129,764	17,064,458	2,065,306	12.1
Gross profit percentage	7.2%	7.0%		
Operating expense	14,510,949	13,074,262	1,436,687	11.0
Operating income	4,618,815	3,990,196	628,619	15.8
Interest expense	370,873	368,048	2,825	0.8
Income tax expense	1,532,000	1,411,000	121,000	8.6
Income from continuing operations before income taxes	2,748,700	2,254,748	493,952	21.9
BUSINESS SEGMENTS:				
Wholesale				
Sales	\$ 257,842,359	\$ 233,758,627	\$ 24,083,732	10.3
Gross profit	15,054,498	13,311,241	1,743,257	13.1
Gross profit percentage	5.8%	5.7%		
Retail				
Sales	\$ 9,220,081	\$ 9,059,300	\$ 160,781	1.8
Gross profit	4,075,266	3,753,217	322,049	8.6
Gross profit percentage	44.2%	41.4%		

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$3.9 million and \$3.7 in Q3 2010 and Q3 2009 respectively.

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SALES:

Changes in sales are driven by two primary components:

- (i) changes to selling prices, which are largely controlled by our product suppliers, and excise taxes imposed on cigarettes and tobacco products by various states; and
- (ii) changes in the volume of products sold to our customers, either due to a change in purchasing patterns resulting from consumer preferences or the fluctuation in the comparable number of business days in our reporting period.

SALES Q3 2010 vs. Q3 2009

Sales in our Wholesale Segment increased \$24.1 million during Q3 2010 as compared to Q3 2009. Significant items impacting sales during Q3 2010 included the following:

\$16.1 million increase related to our expansion into Northwest Arkansas with the Discount Distributors acquisition.

\$4.9 million increase due to cigarette price increases implemented by manufacturers.

\$0.7 million decrease, primarily related to a reduction in cigarette cartons sold.

\$3.8 million increase in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories (Other Products)

Sales in our Retail Segment increased approximately \$0.2 million in Q3 2010 as compared to Q3 2009. This increase was primarily related to our new retail store that opened in Tulsa, Oklahoma in late Q2 2010.

GROSS PROFIT Q3 2010 vs. Q3 2009

Our gross profit does not include fulfillment costs and costs related to the distribution network which are included in selling, general and administrative costs, and may not be comparable to those of other entities. Some entities may classify such costs as a component of cost of sales. Cost of sales, a component used in determining gross profit, for the wholesale and retail segments includes the cost of products purchased from manufacturers, less incentives we receive which are netted against such costs.

Gross profit in our Wholesale Segment increased \$1.7 million in Q3 2010 as compared to Q3 2009. During Q3 2009, our gross profit benefited \$0.6 million due to price increases implemented by cigarette and tobacco manufacturers. On a year-over-year basis, the decrease in this gross profit from the prior year period was offset by \$0.7 million due to the gross profit generated by the Discount Distributors acquisition, \$0.6 million due to improved gross margins in our cigarette and tobacco categories, and \$1.0 million due to changes in sales volume and promotional allowances.

Gross profit for the Retail Segment increased \$0.3 million in Q3 2010 as compared to Q3 2009. This increase was primarily related to our new store in Tulsa, Oklahoma, lower throw-out costs, and improved gross margins.

OPERATING EXPENSE Q3 2010 vs. Q3 2009

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, insurance, and professional fees.

Operating expenses increased approximately \$1.4 million in Q3 2010 as compared to Q3 2009. Of this increase, approximately \$0.6 million was attributable to operating costs incurred servicing our new business in Northwest Arkansas, \$0.4 million related to an increase in bad debt expense, \$0.2 million related to higher depreciation and amortization expense, \$0.2 million related to higher insurance and fuel costs, and \$0.3 million primarily related to our new Retail Segment store in Tulsa, Oklahoma. These increases were partially offset by a \$0.3 million decrease in compensation expense.

Table of Contents**RESULTS OF OPERATIONS NINE MONTHS ENDED JUNE 2010:**

	For the nine months ended June			
	2010	2009	Incr (Decr)	% Change
CONSOLIDATED:				
Sales	\$ 741,502,607	\$ 655,637,536	\$ 85,865,071	13.1
Cost of sales	688,204,656	605,481,395	82,723,261	13.7
Gross profit	53,297,951	50,156,141	3,141,810	6.3
Gross profit percentage	7.2%	7.6%		
Operating expenses	42,458,331	39,510,307	2,948,024	7.5
Operating income	10,839,620	10,645,834	193,786	1.8
Interest expense	1,144,543	1,265,834	(121,291)	(9.6)
Income tax expense	3,495,000	3,614,000	(119,000)	(3.3)
Income from continuing operations before income taxes	6,269,261	5,850,143	419,118	7.2
BUSINESS SEGMENTS:				
Wholesale				
Sales	\$ 713,863,133	\$ 628,032,633	\$ 85,830,500	13.7
Gross profit	41,250,675	38,749,866	2,500,809	6.5
Gross profit percentage	5.8%	6.2%		
Retail				
Sales	\$ 27,639,474	\$ 27,604,903	\$ 34,571	0.1
Gross profit	12,047,276	11,406,275	641,001	5.6
Gross profit percentage	43.6%	41.3%		

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$11.5 million for the nine months ended June 2010 and \$11.6 million for the nine months ended June 2009.

SALES Nine Months Ended June 2010

Sales in our Wholesale Segment increased \$85.8 million for the nine months ended June 2010 as compared to the same prior year period. Significant items impacting our Wholesale Segment sales for the nine months ended

June 2010 included:

\$38.3 million increase related to our expansion into Northwest Arkansas with the acquisition of Discount Distributors.

\$58.1 million increase due to cigarette price increases implemented by manufacturers.

\$15.6 million decrease, primarily related to a reduction in cigarette cartons sold.

\$5.0 million increase in Other Product sales.

Sales in our Retail Segment for the nine months ended June 2010 were even as compared to the same prior year period. Sales for the nine months ended June 2010 benefited approximately \$0.2 million in connection with our new Tulsa, Oklahoma retail store. This increase was partially offset by lower sales in our Florida retail stores which have been impacted by depressed economic conditions in that region, as well as increased competition from other natural food chains.

Table of Contents**GROSS PROFIT Nine Months Ended June 2010**

Gross profit in our Wholesale Segment increased \$2.5 million for the nine month period ended June 2010 as compared to the same period in the prior year. During the comparable prior year period, our gross profit included a benefit of \$3.2 million due to price increases implemented by cigarette and tobacco manufacturers. On a year-over-year basis, the decrease in this gross profit from the prior year period was offset by \$1.8 million due to the gross profit generated by Discount Distributors, and \$2.5 million due to improved gross margins in our cigarette and tobacco categories, and \$1.4 million related to changes in promotional allowances and overall sales volume.

Gross profit for the Retail Segment increased \$0.6 million for the nine month period ended June 2010. Of this increase, approximately \$0.1 million related to our new Retail store in Tulsa, Oklahoma and \$0.5 million related to lower throw-out costs and improved gross margins.

OPERATING EXPENSE Nine Months Ended June 2010

Operating expenses for the nine month period ended June 2010 increased approximately \$2.9 million as compared to the same prior year period. Of this increase, approximately \$1.3 million is attributable to operating costs incurred servicing our new business in Northwest Arkansas, \$0.2 million related to an increase in our bad debt expense, \$0.4 million related to higher depreciation and amortization expense, \$0.5 million related higher compensation expense, \$0.2 million related to higher fuel costs, and \$0.3 million primarily related to our new Retail Segment store in Tulsa, Oklahoma.

INTEREST EXPENSE Nine Months Ended June 2010

Interest expense for nine months ended June 2010 decreased approximately \$0.1 million as compared to the same prior year period. This change was principally related to lower interest rates and average borrowings on the Company's credit facility. For the nine months ended June 2010, average interest rates and borrowings on the Company's revolving credit facility were 0.46% and \$0.6 million lower, respectively, as compared to the same prior year period.

DISCONTINUED OPERATIONS

Income from discontinued operations in the prior year periods was primarily related to a gain on the disposal of assets held by Trinity Springs, Inc. (TSI), a wholly owned subsidiary of the Company, and a related debt settlement.

A summary of discontinued operations is as follows:

	Three months ended		Nine months ended	
	June		June	
	2010	2009	2010	2009
Operating income (loss)	\$	\$ 20,105	\$	(65,458)
Interest expense				(230,012)
Gain on asset disposal and debt settlement		7,381,264		7,381,264
Income tax expense		2,722,000		2,606,000
Income from discontinued operations		4,679,369		4,479,894

LIQUIDITY AND CAPITAL RESOURCES**Overview**

Operating Activities. The Company requires cash to pay operating expenses, purchase inventory, and make capital investments. In general, the Company finances its cash flow requirements with cash generated from operating activities and credit facility borrowings. For the nine months ended June 2010, the Company used cash of approximately \$0.2 million from operating activities. Significant items impacting cash used were higher accounts receivable, inventory, and prepaid and other current assets balances. These items were partially offset by an increase in accounts payable.

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Our variability in cash flows from operating activities is dependent on the timing of inventory purchases and seasonal fluctuations. For example, periodically we have inventory buy-in opportunities which offer more favorable pricing terms. As a result, we may have to hold inventory for a period longer than the payment terms. This generates a cash outflow from operating activities which we expect to reverse in later periods. Additionally, during the warm weather months, which is our peak time of operations, we generally carry higher amounts of inventory to ensure high fill rates and customer satisfaction.

Investing Activities. The Company used approximately \$4.5 million of cash during the nine months ended June 2010 for investing activities, primarily related to capital expenditures for property and equipment and the acquisition of Discount Distributors.

Financing Activities. The Company generated cash of \$4.7 million for financing activities for the nine months ended June 2010. Of this amount, \$5.6 million related to net borrowings on the Company's credit facility which was used to purchase inventory and fund the Company's acquisition of Discount Distributors, and \$0.3 million related to the exercise of stock options. Offsetting these items was \$0.7 million of payments on long-term debt, and \$0.5 million related to dividends on the Company's common and preferred stock.

Cash on Hand/Working Capital. At June 2010, the Company had cash on hand of \$0.4 million and working capital (current assets less current liabilities) of \$46.4 million. This compares to cash on hand of \$0.3 million and working capital of \$35.7 million at September 2009.

CREDIT AGREEMENT

The Company has a credit agreement (the Facility) with Bank of America, which includes the following significant terms:

A January 1, 2012 maturity date and a \$55.0 million revolving credit limit.

The Facility bears interest at either the bank's prime rate or at LIBOR plus 250 basis points, at the election of the Company.

The Facility provides for an additional \$5.0 million of credit available for certain inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.

Lending limits that are subject to accounts receivable and inventory limitations, and an unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable. Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.

The Facility includes a prepayment penalty equal to one-half of one percent (1/2%) of the original maximum loan limit (\$60.4 million) if the Company prepays the entire Facility or terminates the credit agreement on or before January 1, 2011.

The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at June 2010.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the calculated credit limit of the Facility at June 2010 was \$54.5 million, of which \$28.5 million was outstanding, leaving \$26.0 million available.

At June 2010, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.06% at June 2010.

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At June 2010, the Company had \$6.4 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at June 2010.

During the nine months ended June 2010, our peak borrowings under the Facility were \$39.6 million and our average borrowings and average availability were \$31.2 and \$20.0 million, respectively. Our availability to borrow under the Facility generally decreases as inventory and accounts receivable levels increase because of the borrowing limitations that are placed on collateralized assets.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse is financed through term loans with Marshall and Ilsley Bank (M&I), which is also a participant lender on the Company's revolving line of credit. The M&I loans contain cross default provisions which cause all loans with M&I to be considered in default if any one of the loans where M&I is a lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2010. In addition, the M&I loans contain co-terminus provisions which require all loans with M&I to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Dividends Payments

The Company paid cash dividends on its common shares of \$103,599 and \$57,040 for the three months ended June 2010 and June 2009, respectively, and \$310,358 and \$171,119 for the nine months ended June 2010 and June 2009, respectively.

The Company also paid cash dividends on its convertible preferred stock issuances (Series A, and Series B) of \$74,053 and \$74,053 for the three months ended June 2010 and June 2009, respectively, and \$222,159 and \$272,159 for the nine months ended June 2010 and June 2009, respectively.

Contractual Obligations

There have been no significant changes to the Company's contractual obligations as set forth in the Company's Form 10-K for the fiscal period ended September 30, 2009.

OTHER

The Company has issued a letter of credit for \$0.5 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Liquidity Risk

The Company's liquidity position is significantly influenced by its ability to maintain sufficient levels of working capital. For our Company and industry in general, customer credit risk and ongoing access to bank credit heavily influence liquidity positions.

The Company's credit facility with Bank of America expires January 1, 2012. We believe the Company continues to have a strong working relationship with Bank of America and has maintained compliance with all related debt covenants. However no assurances can be given that our credit facility with Bank of America will be renewed on acceptable terms if at all. The Company also aggressively monitors its customer credit risk to limit exposure in that area.

The Company does not currently hedge its exposure to interest rate risk or fuel costs. Accordingly, significant price movements in these areas can and do impact the Company's profitability.

The Company believes its liquidity position going forward will be adequate to sustain operations. However, a precipitous change in market conditions could materially impact the Company's future revenue stream as well as its ability to collect on customer accounts receivable balances and secure bank credit.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial and accounting officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management s override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control that occurred during the fiscal quarter ended June 30, 2010, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

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Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A Risk Factors on Form 10-K for the fiscal year ended September 30, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. (Removed and Reserved)

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits

- | | |
|------|--|
| 10.1 | Fourteenth Amendment to the Amended and Restated Loan and Security Agreement, dated July 19, 2010. |
| 31.1 | Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 302 of the Sarbanes-Oxley Act |
| 31.2 | Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 302 of the Sarbanes-Oxley Act |
| 32.1 | Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act |
| 32.2 | Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 906 of the Sarbanes-Oxley Act |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMCON DISTRIBUTING COMPANY
(registrant)

Date: July 16, 2010

/s/ Christopher H. Atayan
Christopher H. Atayan,
Chief Executive Officer and Chairman

Date: July 16, 2010

/s/ Andrew C. Plummer
Andrew C. Plummer,
Vice President, Chief Financial Officer,
and Principal Financial Officer